Energy Choice Matters

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Retailers Say Mass. Basic Service Adjustment Mechanism Distorting Market

The Massachusetts DPU should require electric distribution utilities to procure basic service supplies at an all-in, fixed price per kilowatt-hour, if the utilities cannot justify that the current pass-through reconciliations under the Basic Service Adjustment Mechanism are in the public interest, the Retail Energy Supply Association said in comments (09-26, Matters, 3/20/09).

The Basic Service Adjustment Mechanism is a reconciliation that allows distribution utilities to true-up and either charge or credit ratepayers for the difference between basic service costs and revenues during a prior period. The difference in basic service costs and revenue results from several generation components that are not included in the fixed bid price of wholesale suppliers, which are instead paid to wholesale suppliers on a pass-through basis. Such costs subject to reconciliation can include RECs, administrative costs related to supply procurement, uncollectibles, and, most significantly, uplift charges, particularly in the SEMA region.

Distribution utilities attempt to establish a proxy for such pass-through costs during each basic service rate period, but reconciliations are typically required once actual costs are known.

Charges or credits under the Basic Service Adjustment Mechanism apply to all distribution customers, not only those on basic service. When the adjustments are significant, they adversely impact both competitive electricity suppliers and electricity consumers in the Commonwealth, RESA noted. Reconciliations are performed annually.

Significant reconciliations distort the marketplace and harm Massachusetts electricity

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Enbridge Files to Raise Costs of Open Billing Program

Enbridge Gas Distribution applied at the Ontario Energy Board to continue and modify its open billing services program, proposing to use market-dictated pricing for third party access to its billing services and bill inserts (EB-2009-0043).

Enbridge's open billing program, the result of a 2007 settlement, granted third-party service providers, including commodity suppliers and energy service/efficiency companies, access to the Enbridge bill and bill systems. Under the settlement, third-party charges could appear as line items on the utility bill, or third parties could use Enbridge's system for a standalone bill in certain circumstances. Third parties could also elect to include inserts with the Enbridge bill under various conditions. Inserts are restricted to seven months of the year, because third-party inserts are not permitted in months when Enbridge mails safety and rate notices.

Under the current interim program, third parties are charged $0.829 per bill for shared bills, and $1.389 per bill for standalone bills, for use of Enbridge's billing system. Bill inserts cost $0.05 per insert. All figures are Canadian dollars.

The program calls for a baseline of $5 million in ratepayer benefits from the open bill revenues, and the sharing of revenues between ratepayers and Enbridge above that amount. However, the

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DPU Approves National Grid-ConocoPhillips Management Agreement

The Massachusetts DPU approved a co-management service agreement between National Grid and ConocoPhillips covering Grid's portfolio of assets used to secure gas supplies necessary to meet the firm requirements of the Grid's sales customers, though the DPU said future RFPs to select asset managers must be improved.

National Grid says the co-management agreement is designed to secure the gas supplies necessary to meet the firm requirements of Grid's sales customers; to establish a structure that will ensure portfolio reliability over the long term; and to maximize the value of the assets contained in the gas-resource portfolio for the benefit of Grid customers.

Grid selected ConocoPhillips from an RFP which received seven responses after being sent to 20 gas marketers. A portion of the Grid's upstream transportation capacity and underground storage assets will be released to ConocoPhillips under the agreement.

However, the state's Attorney General raised several concerns about the agreement, particularly about the RFP process. The AG said that the highest scoring bidder in the RFP, which was conducted just as last fall's turmoil in the credit markets began, was declared ineligible by National Grid due to credit reasons. This bidder has since stabilized its financial situation, the AG noted. Meanwhile, the AG said ConocoPhillips' parent company recently suffered financial losses.

The AG also called the RFP process fundamentally flawed because the bid evaluation process scored bidders subjectively against each other, rather than against an objective scale. Additionally, the AG claimed Grid's decision not to identify in the RFP the assets that would be released to the prospective co-manager appeared designed to compress the optimization guarantees offered by bidders who were unaware of the size and value of the portfolio upon which they bid.

Though the DPU agreed the RFP process should be improved, it approved the co-management agreement for a period of one year. The Department noted Grid's RFP followed DPU precedent, and that no bidder complained about the process. The exclusion of a particular bidder, which had made the short list, due to credit concerns was a prudent measure, the DPU added.

However, the DPU noted that sharing information with bidders regarding the assets to be released would enhance the transparency of the solicitation process, and ordered that such information be released in future RFPs. The asset data will appropriately focus the bidding field, and will assist bidders in providing more accurate assessments of the portfolio value and revenue generating opportunities, the DPU said.

Though the Department had previously approved Grid's bidder evaluation criteria, the DPU believes, on further reflection, that Grid's practice of scoring a bidder based upon how it compares to the competition has the potential of inflating the overall scores, and may not reflect a bidder's true overall grade. A scoring system that rates bidders individually, rather than scaling only among the range of participating bidders, may be more conducive to the purpose of selecting the most qualified bidder and must be implemented in subsequent RFPs, the DPU ordered.

Under the co-management agreement, customers will pay a price for gas that mimics what they would pay in the absence of the agreement, because National Grid will be responsible for all demand charges associated with its pipeline and underground storage resources, and commodity prices will be established based on a pre-determined pricing hierarchy associated with Grid's physical assets. Commodity charges will be calculated based on the market indices that correlate to the receipt points designated in Grid's resource contracts.

More Md. Suppliers Report 2008 Retail Sales

Additional suppliers have filed their annual RPS reports with the Maryland PSC, reporting their total retail sales in the state for 2008:

Total Retail Electricity Sales (MWh)	**2008**	**2007**
Commerce Energy	147,170.93	266,495.6
Suez Energy Resources NA	795,452	812,648

Data for additional suppliers in 4/2/09 issue

Michigan IPPs Counter Edison Stance on PPAs

Detroit Edison's preference for utility ownership over PPAs for renewable resources is not supported with any evidence, the Michigan Wholesale Power Association (MWPA) argued in comments on Edison's Renewable Energy Plan (U-15806).

As first reported in Matters (Matters, 3/6/09), Detroit Edison filed testimony contending that, on average, utility-owned projects will be more cost effective and beneficial to customers than projects contracted for under long-term renewable energy contracts.

However, MWPA said that Edison overestimated the cost of PPAs by including additional costs associated with PPA imputed debt, while not including PPA benefits that offset any such costs. MWPA contended that while rating agencies might assign imputed debt to PPAs to assess financial risk, the agencies also recognize that PPAs typically reduce a utility's business risk, particularly its power supply procurement risks. Edison's renewable plan did not capture such reduced risks in analyzing PPA costs, MWPA said.

For example, MWPA reported that Moody's recognizes several factors as positive risk reduction features of PPAs, including: outsourcing of operating risks to parties more skilled in power station operation; providing certainty of supply; providing a fixed price; and reducing balance sheet debt.

Utility-owned options typically add incremental development, construction, and/or operating risks for the utility and its ratepayers, MWPA said. In addition, financing ownership of generation requires the utility to either drain internally-generated sources of cash, or access the capital markets, further stressing credit quality. In contrast, PPAs typically transfer development, construction and operating risks to the third party supplier, MWPA argued.

NextEra Energy Resources also found Edison's calculation of PPA costs at $2,457/kW for installed wind in 2009 to be high, and said it does not believe that costs in that range are required for it to install wind assets in Michigan.

MWPA also claimed Detroit Edison failed to comply with statutory mandates to file its RFP design for the portion of its renewable plan subject to competitive solicitation.

A December RFP conducted by Edison for RECs raised concerns, MWPA said, because Edison retained a "troubling" amount of subjective discretion in the RFP. For example, Edison only accepted responses from invited bidders, and Edison also reserved the right to reject any and all responses, to accept any response, or to select any combination of responses. With such provisions, "it's not clear that any bid evaluation criteria really exists," MWPA argued.

The Association of Businesses Advocating Tariff Equity raised concerns about the cost of Edison's proposal, while PSC Staff recommended the addition of a standard contract/tariff for distributed generation as part of the renewable plan, similar to Staff's recommendation at Consumers' Energy (Matters, 3/25/09).

Briefly:

NOPEC Formally Signs with Gexa

Following a letter of intent signed with Gexa Energy parent FPL Energy this fall, the Northeast Ohio Public Energy Council has signed a supply agreement for its municipal aggregation pool with Gexa Energy Ohio. Covering 126 communities in the FirstEnergy territory, the agreement was contingent upon certain provisions ultimately adopted in FirstEnergy's electric security plan to remove barriers to governmental aggregation. Pricing will be finalized after FirstEnergy's auction for supplies for the period starting June 1, 2009, though NOPEC said savings of up to $50 million were possible over a two-year period. NOPEC said it has historically saved customers about 5% off the generation portion of bills. The agreement with Gexa is to run 22 months, from August 1 through May 2011, and will include a portion of renewable power beyond the current RPS requirements. NOPEC expects to increase its customer base from about 400,000 to as many as 600,000, with the addition of new residents and businesses that have moved into NOPEC communities since eligibility was last reviewed in 2005.

Green Mountain Energy Joins RESA

Green Mountain Energy joined the Retail Energy Supply Association, bringing RESA's membership rolls back to an even dozen after Direct Energy acquired fellow member Strategic Energy last year. In markets covered by RESA, Green Mountain currently does not offer a mass market commodity supply option, but does offer RECs through utility programs in New York (National Grid) and New Jersey (statewide). However, Green Mountain has become more active in regulatory proceedings recently, particularly in New York.

Cokinos Withdraws Pa. License Application

Cokinos Natural Gas, a subsidiary of oil and gas trader Cokinos Energy, has withdrawn its natural gas broker/marketer license application at the Pennsylvania PUC.

Nordic to Relinquish Michigan Electric License

Nordic Marketing of Michigan applied to relinquish its alternative electricity supplier license in Michigan, stating it has not served customers since December 2005.

Basic Service *... from 1:*

consumers by (1) impeding the ability of consumers to compare the true price of basic service with the prices of competitive offerings during any given period; (2) obscuring market price signals that would otherwise encourage investments in demand response and energy conservation; (3) undermining the efforts of retail electricity suppliers to compete with the basic service offerings of the utilities; and (4) causing customers on competitive supply to pay more or less than their fair share of generation costs depending upon whether the proxy is understated or overstated.

RESA recommended that the DPU require the utilities to demonstrate that the procurement of wholesale supply costs on a pass-through basis comports with the public interest, taking into account the total cost and risk to ratepayers and the impact on the competitive electricity market. If the distribution utilities cannot make that showing, the Department should direct them to procure basic service supplies at an all-in, fixed price per kilowatt-hour, thereby minimizing reconciliation adjustments of basic service costs and revenues, RESA said. Such all-in basic service bids would benefit customers since suppliers would bear the risks associated with supplying basic service, the Cape Light Compact added.

If the utilities can show that pass-through procurements are in the public interest and should continue, RESA urged the Department to scrutinize the proxies used for the affected bid components, as inaccurate estimates lead to large true-ups.

Reconciliations should also occur more frequently, RESA said -- quarterly for large customers and semi-annually for residential and small commercial customers, mirroring the default service rate periods.

True-ups should only be allocated among

basic service customers, RESA added. The Cape Light Compact agreed, noting the current allocation of cost under- and over-recoveries to all distribution customers has hindered the effectiveness of the competitive marketplace and of municipal aggregation. "The [Basic Service Adjustment Mechanism] does not allow for transparency in pricing, and the distribution companies are allowed to estimate costs of providing generation service to customers while competitive suppliers must include the actual costs within their pricing. The result is a skewed pricing scenario," Cape Light said.

Furthermore, the DPU should examine the distribution utilities' practice of blending basic service rates for residential and small commercial and industrial customers in the Northeast Massachusetts (NEMA) load zone and the Southeast Massachusetts (SEMA) load zone, RESA recommended. Such blending occurs at Nstar and National Grid, and impacts the Basic Service Adjustment Mechanism because it can cause differences between the basic service wholesale supply cost and basic service revenues depending upon the customer loads and other factors assumed in the blended-rate calculations.

Utilities should establish separate zonal rates that would both create more accurate price signals and simplify the process of translating wholesale bids (which are made on a zonal basis) into rates, RESA said.

Dominion Retail also sought to change the current rules which require the re-pricing of a customer's basic service costs when the customers switches to competitive supply, if the customer is on fixed-price basic service. Currently, all sizes of customers leaving basic service are subject to such re-pricing, which Dominion Retail argued should not apply to small customers, since such customers are not sophisticated enough to game the system by frequently switching on and off basic service.

Under the re-pricing, if a customer leaves the six-month, fixed price basic service product (the default option for small customers) for competitive supply, their usage is re-priced at the monthly basic service price, and a final charge or credit is imposed on the customer's next bill, which is their first bill with their new competitive supplier. The retroactive change to monthly pricing causes an, "extraordinary level of customer dissatisfaction and distress," Dominion Retail said, which is blamed on the competitive supplier since it appears on the customer's fist bill with their new retailer. Many customers see the reconciliation as an

Enbridge *... from 1:*

financial performance of the open bill services program has been less positive than expected, in part because costs have been higher than forecast, Enbridge said. As a result, the net benefit to ratepayers has been (or will be) less than the forecast $5.389 million per year, while the benefit to Enbridge has been minimal (an average of less than $600,000 per year).

Considering the minimal financial returns, Enbridge said it intends to move to more market reflective pricing for an updated open billing program, which will coincide with a new Customer Information System. Enbridge is not seeking, and does not believe it requires, approval from OEB for its proposed open billing pricing.

Enbridge stressed that the open billing services, "are not monopoly services that lend themselves to price regulation in a similar manner as applies to distribution services." Unlike monopoly services, Enbridge said there are numerous alternatives available to third parties, with such options priced based on market forces. Accordingly, Enbridge said it requires a high degree of flexibility in setting the prices of its open billing services, so as to be able to respond to competitive elements in the marketplace for similar services.

Enbridge reported it intends to set initial billing services pricing in the range of $0.89 per bill for shared bills and $2.05 per bill for standalone bills under the revised program. The prices would be adjusted each year by a percentage equal to one half of the inflation rate. Enbridge said the prices are at the low end of the range recommended by TMG Consulting. TMG had recommended a range of $0.88 to $1.02 for shared bills and between

$2.05 and $2.39 for standalone bills, but Enbridge is opting for the lower end of the range due to third parties' concerns about increased costs.

Enbridge will continue the existing bad debt flow-through model in connection with the collection guarantee associated with the Billing Services program. The current bad debt flow-through is 0.5% of the billed receivable amount for each biller, and Enbridge would update the figure to 0.53% based on recent collections experience. The bad debt rate would change annually.

All third parties would pay the same prices, and would sign the same Open Bill Access Service Agreement. A standard agreement will make participation easier for smaller potential open bill clients who have limited resources to undertake legal review of the contract documents, Enbridge said.

The price of bill inserts would be set by Enbridge based on the month of the year, and inserts would be allocated through use of an electronic, web-based “ticket master” tool on a first-come, first-serve basis. The software system will be opened on a specified date and time which would be communicated to all potential participants with a lead time of approximately 3-5 business days. Interested parties would have the opportunity to select a spot at the proposed price for a particular month by accessing the software via the Internet. Seven monthly bill insertion spots are available each month. In response to concerns from third parties, Enbridge will limit the number of spots available to any one party through the “ticket master” tool, so that no party may reserve more than half of the spots available through the tool during any month.